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AIRPORT COMMISSION:

Concession Audit of Tomokazu Japanese Cuisine (SFO) Inc.

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Office of the Controller – City Services Auditor

AIRPORT COMMISSION:

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April 22, 2009

**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Elisa Sullivan, Audit Manager
Cynthia Chavez, Associate Auditor



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

April 22, 2009

San Francisco Airport Commission
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128

President and Members:

The Controller's Office, City Services Auditor, presents its report concerning the concession audit of Tomokazu Japanese Cuisine (SFO) Inc. (Tomokazu). Tomokazu has one 10-year lease agreement and one 9-year, 11 month lease agreement with the Airport Commission of the City and County of San Francisco. Under the terms of its leases, Tomokazu operates two restaurants at the San Francisco International Airport (SFO). One of the restaurants operates at a domestic terminal, while the second operates in the international terminal of SFO.

Reporting Period: January 1, 2005, through December 31, 2007

Rent Paid:	Tomokazu (Domestic)	\$ 756,265
	Tomokazu (International)	<u>234,885</u>
	Total:	\$ 991,150

Results:

Tomokazu correctly reported gross revenues of \$8,522,619 for its location at the domestic terminal and \$3,711,523 for its location at the international terminal for a total of \$12,234,142. Tomokazu did not always submit all of its rent to the Airport Department (Airport) on a timely basis; however, the incurred late charges are negligible. In addition, Tomokazu underpaid one month of its rent due to a calculation error, and owes the Airport \$2,024.

The responses from the Airport and Tomokazu are attached to this report. The Controller's Office, City Services Auditor, will follow up with the Airport on the status of the recommendations made in this report.

Respectfully submitted,


Robert Tarsia
Deputy Audit Director

cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
Public Library

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INTRODUCTION

Audit Authority

The Office of the Controller (Controller) has authority under the San Francisco Administrative Code, Chapter 10, Article 1, Section 10.6-2 to audit, at regular intervals, all leases of city-owned real property where rent of \$100,000 or more a year is to be paid to the City. In addition, the City Charter provides the Controller, City Services Auditor (CSA) with broad authority to conduct audits. We conducted this audit under that authority and pursuant to an audit plan agreed to by the Controller and the Airport.

Background

Tomokazu Japanese Cuisine (SFO) Inc. (Tomokazu) operates two restaurants under two separate lease agreements with the Airport Commission (Commission) of the City and County of San Francisco. Under lease number 99-02920, a 9-year, 11 month lease with a rent commencement date of December 10, 2000, Tomokazu operates a restaurant at the international terminal of the San Francisco International Airport (SFO). Under lease number 03-0186, a 10-year lease with a rent commencement date of May 25, 2005, Tomokazu operates a restaurant at a domestic terminal of SFO.

The lease agreements require Tomokazu to pay the Airport Department (Airport) the greater of a minimum annual guarantee (MAG), or a tiered percentage rent of 6 to 10 percent of its annual gross revenues for both leases. The Airport can adjust the MAG annually.

Scope and Methodology

The purpose of this audit was to determine whether Tomokazu complied with the reporting, payment, and other provisions of its lease agreements with the Commission. Our audit covered the period from January 1, 2005, through December 31, 2007.

To conduct the audit, we examined the applicable terms of Tomokazu's leases and the adequacy of its procedures for collecting, recording, summarizing, and reporting its gross revenues to the Airport. To determine whether Tomokazu accurately reported its gross revenues to the Airport, we tested, on a sample basis, Tomokazu's monthly sales records, daily sales reports, and bank deposit records. In addition, we determined whether Tomokazu had any outstanding payments for the period. We also compared

the gross revenues reported to the Airport with the gross revenues reported to the California State Board of Equalization for the four calendar quarters during each year, and verified Tomokazu's compliance with certain other provisions of its leases.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Tomokazu Correctly Reported Its Gross Revenues

The lease agreements require Tomokazu to pay the Airport Department (Airport) the greater of a minimum annual guarantee (MAG), or a tiered percentage rent of 6 to 10 percent of its annual gross revenues for both leases. The Airport can adjust the MAG annually.

From January 1, 2005, through December 31, 2007, Tomokazu correctly reported gross revenues of \$12,234,142 and paid \$991,150 in rent to the Airport. The exhibit below summarizes Tomokazu's reported gross revenues and rent paid for its lease agreements.

EXHIBIT

Gross Revenues Reported and Rent Paid January 1, 2005, Through December 31, 2007

	January 1, 2005, Through December 31, 2005	January 1, 2006, Through December 31, 2006	January 1, 2007, Through December 31, 2007	Totals
Gross Revenues Reported				
Lease No. 99-0292O (Int'l)	\$ 1,094,897	\$ 1,202,261	\$ 1,414,365	\$ 3,711,523
Lease No. 03-0186 (Domestic)	<u>1,504,801^a</u>	<u>3,255,059</u>	<u>3,762,759</u>	<u>8,522,619</u>
Total Gross Revenues	\$ 2,599,698	\$ 4,457,320	\$ 5,177,124	\$ 12,234,142
Rent Paid				
Lease No. 99-0292O (Int'l)	\$ 67,593	\$ 74,157	\$ 93,135	\$ 234,885
Lease No. 03-0186 (Domestic)	<u>118,483</u>	<u>293,506</u>	<u>344,276</u>	<u>756,265</u>
Total Rent Paid	\$ 186,076	\$ 367,663	\$ 437,411	\$ 991,150

^a Note: The reported gross revenues for Lease 03-0186 for the year 2005 represent 8 months only (May to December), as the lease commenced on May 25, 2005.

Source: Tomokazu's Monthly Statements of Sales and Rent Due.

Tomokazu Did Not Submit All Rent On a Timely Basis

We found that Tomokazu did not submit all of the rent for both leases on a timely basis, as required by its lease provisions. Both lease agreements require that Tomokazu pay the monthly MAG at the beginning of each month.

Tomokazu then calculates the percentage rent on the gross revenues it earned for the previous month, and if the percentage rent exceeds the monthly MAG, it pays the excess by the 20th of the month. Any rent not paid when due is subject to a service charge of 1.5 percent per month. Although the amount incurred in late fees is insignificant in this case, the Airport should ensure all rent is collected on time.

Tomokazu Underpaid Its Rent for One Month

Tomokazu underpaid the December 2006 rent under lease number 99-02920 by \$2,153. This occurred because Tomokazu used the 6 percent tiered rate to compute rent due, when it should have used the 8 percent tiered rate. We reviewed the Airport's accounting records, noting staff did not identify the underpaid amount. Therefore, the Airport should invoice Tomokazu for the unbilled rent, less a small overpayment from the previous month of \$129, or \$2,024.

Based on subsequent discussion with Airport staff, we were advised that their newly implemented accounting system will identify rent discrepancies through an automated process. During the billing process, the system will compare the expected payment based on the lease terms to the tenant's actual payment, and flag any discrepancies. The accountant will then contact the tenant to advise them of the difference, and request any additional rent due.

Recommendations

The Airport should take the following actions:

1. Ensure that all MAG and base rent is collected timely, in accordance with the lease terms.
2. Bill Tomokazu for net underpaid rent of \$2,024.
3. Ensure its new accounting system is correctly computing the rent receivable from the tenant, based on applicable lease terms, and identifying under or overpaid amounts.

ATTACHMENT A: AIRPORT'S RESPONSE



San Francisco International Airport

April 8, 2009

P.O. Box 8092
San Francisco, CA 94126
Tel: 415.921.5000
Fax: 415.921.1000
www.flysfo.com

Mr. Robert Tarsia
Deputy Audit Director
Office of the Controller
City and County of San Francisco
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Audit of Tomokazu Japanese Cuisine, Inc. – Airport's Response

AIRPORT
COMMISSION
CITY AND COUNTY
OF SAN FRANCISCO

GAVIN NEWSOM
MAYOR

LARRY MAZZOLA
PRESIDENT

LINDA S. CRAYTON
VICE PRESIDENT

CARYL ITO

ELEANOR JOHNS

RICHARD J. GILGENHIME

JOHN E. MARTIN
AIRPORT DIRECTOR

Dear Mr. Tarsia:

The San Francisco International Airport ("Airport") is in receipt of the Audit Recommendation from City Services Auditor Division for its audit of International Terminal Food and Beverage Lease No. 99-02920 and Domestic Terminals Food and Beverage Lease No. 03-0186 between the City and County of San Francisco, through its Airport Commission, and Tomokazu Japanese Cuisine, Inc. ("Tenant"). The following is the Airport's response to the Audit Report findings:

1. **Ensure that all MAG and base rent is collected timely, in accordance with the lease terms.** The Airport agrees with this statement. Staff will ensure compliance going forward.
2. **Bill Tomokazu for net underpaid rent of \$2,024 for the month ended December 2006.** The Airport agrees with this finding and will issue an invoice upon receipt of the final audit report.
3. **Ensure its new accounting system is correctly computing the rent receivable from the tenant, based on applicable lease terms, and identifying under or overpaid amounts.** The Airport agrees with this statement. Staff will ensure compliance going forward.

Thank you for your staff's work on this audit. Please do not hesitate to call if you have any questions.

Sincerely,

A handwritten signature in dark ink, appearing to read "Cheryl Nashir".

Cheryl Nashir
Associate Deputy Airport Director
Revenue Development & Management

Attachment

cc: Cynthia Chavez
Leo Fermin
Cesar Sanchez
Gigi Ricasa
Vic Bartolome

Recommendation	Responsible Agency	Response
1. Ensure that all MAG and base rent is collected timely, in accordance with the lease terms.	Airport	Agree. Staff will ensure compliance going forward.
2. Bill Tomokazu for net underpaid rent of \$2,024.	Airport	Agree. An invoice will be issued upon receipt of the final audit report.
3. Ensure its new accounting system is correctly computing the rent receivable from the tenant, based on applicable lease terms, and identifying under or overpaid amounts.	Airport	Agree. Staff will ensure compliance

ATTACHMENT B: TOMOKAZU'S RESPONSE

Tomokazu Japanese Cuisine (SFO) Inc.

878 Washington Street, San Francisco, CA 94108
(415) 421-5447

April 9, 2009

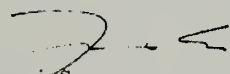
Mr. Robert Tarsia
Deputy Audit Director
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Re: Audit of Tomokazu Japanese Cuisine (SFO) Inc.

Dear Mr. Tarsia,

We have review the audit and comments of our restaurant; we agreed the No. 2 recommendation and will pay back the underpaid amount to San Francisco Airport Commission once we receive the bill. We would like to thank you your audit team member for their hard working and efficient performance.

Yours sincerely,


Francis So
President

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